Global Economic Recession

Understanding Indonesia's Stance and Strategies in Facing Recession Threats

Monthly Newsletter
July 2022

Table of Contents

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Insight

Recession is Coming: How Will It Affect Indonesia?

by Shaheila Roeswan and Ellicia Emerliawati

The risk of an economic recession is getting closer and the signs are becoming clearer – unstable price changes, the delay in manufacturing, and the decrease in economic growth are few of the factors weighed in. After the 2008-2009 Recession, countries around the globe are becoming more prepared in order to combat the upcoming recession.

What is Recession?

The global economic condition is currently facing a tight corner – supplies are collapsing, stocks moving into bear market territory–where the market faces prolonged price declines–and policies are always one step away from changing. The economy worldwide is warning countries that a global recession may arrive soon. But, what is recession, actually?

According to the National Bureau of Economic Research ("NBER"), a recession is "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real Gross Domestic Product ("GDP"), real income, employment, industrial production, and wholesale-retail sales." Given the flexibility of such definition, it can be inferred that many factors may contribute to the condition of which the economical aspect of a country can be considered as hitting recession.

Some factors may be a bigger contributor towards recession than the others. It is always important to note that, not only internal aspects, but global aspects could also contribute to one nation's recession. The most common contributing factors for a recession are economic shock, such as the recent pandemic, and adjustment towards a technological breakthrough. Moreover, both inflation and deflation also contribute. Too much of each may drive a nation to recession due to financial runaways. Lastly, too much optimism in investments may also contribute to a recession.

In June 2022, the World Bank releases a statement that describes the global economy as expecting a slump, due to the fact that the growth from 2021 until 2022 were declining, the former reaching 5.1% while the latter only being able to reach 2.9%, and the number will continue to hover around the same range until 2023-2024. In East Asia and Pacific region itself, the growth is expected to decelerate for 4.4% in 2022, before finally reaching 5.2% in 2023.

Policies Around the Globe: What Others are Doing

Different countries provide different economic regulations in order to sustain the country from recession. Some countries chose to improve their trade and finance regulations, while others are more keen on pushing productivity growth. Here are a few examples of regulations typically found in some countries.

Acting upon the high rate of inflation, some countries will choose to increase their interest rates to buckle their financial belts. Some central banks around the globe will choose to tighten monetary policies in order to minimize the effects on growth and employment rate.

Asia, as the main contributor of the global economy, is suggested to stay focused on developing national plans, aiming at structural reforms and improving macroeconomic and financial stability in addition to improving human welfare. If the Eurozone is facing a crisis, then the Asian Development Bank suggested that Asia should focus on containing economic and financial risks that may come out from the crisis.

Fiscal measures would be needed to balance the demand towards domestic consumption, and monetary policies should be aimed to be as flexible as possible to ‘respond to extreme exchange rate volatility. Globalization continues to be part of the Asian economic setting, and thus should be regulated for exports and financial goods to still be able to happen even in the midst of any crisis.

The Global Financial Setting Currently

As mentioned before, many factors are considered as a contributor to the expected recession. Not limited to economic, but also politic and social factors, is a contributing factor to deliver recession to one country. Take recent events for example – the COVID-19 outbreak, the war between Ukraine and Russia, China’s lockdown 2.0, and the growing risk of stagflation may drive more countries to recession, as noted by World Bank President, David Malpass.

The Big Wave: Supply-chain Disruptions

According to the survey conducted by McKinsey in 2022, people from different countries have been agreeing that inflation is a bigger economic risk in comparison to supply chain disruptions or geopolitical conflicts, at least in the next 12 months. Supply chain disruptions, on the other hand, are seen as a risk in their companies’ growth, which are more commonly stated by those that resource materials from China.

Lockdowns around the world are affecting supply chains – the condition of society staying at home and ordering goods online to be delivered to homes, has broken the capacity to ship said goods – thus creating the bottleneck effect on supply chains. In addition, economic reports on USA and France found that the price of goods has risen faster in comparison to the last four decades, which could probably increase the notion of central banks increasing their interest rates. On the other side of the globe, China is facing an economic update that may affect its prospects when it comes to trading with other countries.

The Global Financial Setting Currently

In the events of the war between Russia and Ukraine, many of the supplies that were supposed to be sent or delivered are facing reroutes and cancellations. Global supplies for products such as natural gas, wheats, corn, platinums, sunflower oil, and aluminium are at risk of disruptions. The global supply chain has already suffered due to the pandemic, and the impacts of it will further disrupt the supply chain. Freight costs, factory shutdowns, and higher shipping costs are the consequences of the events. Shortages to certain materials, especially for the semiconductor industry can further damage global growth.

China, considered as the center of global manufacturing, has been going on-and-off quarantine for the past two to three years. According to the United Nations Statistics Division, in 2019 itself, China is accountable for 28.7% of global manufacturing. Factoring the amount with the conditions in China, with the latest lockdown in Shanghai ending just recently in June 2022, the factory shutdowns and canceled flights are closing the supply lines and production rates' contribution to global economy.

How Does This Affect Indonesia?

Trading Economics provided data that shows China as the main supplier for imported items and main import partners in Indonesia, making up about 25% of the total imports. Ranging from machineries and electrical equipment to meat and dairy products, Indonesia spent US$56.23 Billion for imports in 2021. Indonesia also rely on their exports, with 21.6% contributing to the total GDP of the country in 2021, and with China as the main trading partner in at least 2019 to 2020. After China, Indonesia also exports many goods and services to the United States, Japan, Singapore, and India. As an exporter, Indonesia has exported a variety of goods, starting from coals, palm oils, turbines, natural gas, and many more. This could suggest that Indonesia may be facing a difficult economic situation, especially factoring in the recent event in the global frame.

In addition to the export and imports situation, there is also stagflation. Stagflation – a condition in which there is a period where economic growth is low and the inflation rate is high – may happen in Indonesia. However, according to Josua Pardede, the Chief Economist of Bank Permata, stagflation may affect the biggest businesses in Indonesia, where it could obstruct economic recovery post-pandemic. The risk of it happening in Indonesia is considerably lower due to the fact that consumption trends in Indonesia are still within the normal range, proven by the current prices of commodities in Indonesia.

Indonesia itself is among the list of countries that may face a national recession, according to Bloomberg. It has been said that Indonesia's chance of facing recession are at 3%, which puts Indonesia at number 14 in the list of most likely facing a recession, just above India.

Opportunities for Businesses in Indonesia

As the economic growth in Asia continues to strive moderately in the last few years, it should be worth noting that as part of the highest contributor of global economy, different regions in Asia also aim to overcome different challenges. One of the most common and important challenges are sustaining economic growth and focusing on the nation's welfare. As the financial system in Europe continues to face a frenzy, the effect it has on Asia will be present.

Opportunities for Businesses in Indonesia

In Indonesia, the Statistics Indonesia Institute ("BPS") provided certain indicators that could help the society to be on guard for recession. A few national factors to look out for are the national income and population rate. Goods consumption and production rate will also be affecting Indonesia's financial health. According to the Asian Development Bank report, it may be possible for Indonesia to face a capital flow and exchange rate volatility by looking at their foreign investments, and having limited fiscal space in relation to the government's debt. Indonesia currently holds the number of IDR7,000 trillion in debt.

Under the pressure of an economic crisis, companies would still aim to achieve a certain level of growth, even more so. One of the things companies could do is to prepare their businesses in regard to the economic crisis, by for example, pushing down costs and ensuring any future information related to the company. Companies would need to be **resilient**, think about the core business.

Ensuring profits and returns to stakeholders, improving the margin even more during the economic downturn, and guaranteeing the leverage are some of the preparations the company should have. Be sure to take note of what aspects are driving growth in the company's margin. In addition, companies should also focus on improving their productivity and polishing the abilities of their employees, as not only financial aspects, but companies should also consider the social frame, with elements such as the ever-changing nature of government regulations and sociopolitical environment.

Investments are also a factor that companies should take into consideration. Knowing where to invest, and knowing when to seize opportunities can be beneficial for the company, as this can put your company one step forward in comparison to other companies. While doing so, companies should remain aware of the future: what would happen if the management go forward with this decision? Will it be beneficial once the economic crisis is over? Companies should also prepare not only for the ending of the crisis but also for the future after it.

Globalization and digital disruption should also be taken into account. Companies should remember that customers will demand a more efficient way of connecting with companies, and companies will be pushed to optimize their efficiency through analytics and digital processing. Operational systems are gradually being digitalized, and companies should take notes of any digital investments that they can do in order to improve the efficiency of their operations.

However, it should also be brought to attention that focusing on growth is not always the best policy. If the company is stable and balanced, any downturn should be an opportunity to preserve and invest for the long term. Understanding where the company should **focus the growth area** is key; instead of blowing proportions out of the need to grow in different areas, the company should know which area to prioritize more.

Manage the funding and liquidity; obtaining funding in the middle of the crisis can be beneficial for growth and supporting the company. Be certain that the core leadership team is prepared and the employees are sufficient to face the challenges. Refer to the company's costs and secure any funding and the base of the company. Reevaluate the company's portfolio and look for any opportunities concerning M&A.

Opportunities for Businesses in Indonesia

Lastly, keep an eye on regulations changes. As a company, it is important to **comply with regulations** to ensure the security of the company. Consult with the experts in regards to the regulations, especially concerning the financial, taxation, legal, and industry-based regulations and compliance.

Indonesian Tax Policy: Brace for impacts on businesses

In facing the economic downturn during the COVID-19 pandemic, fiscal policy has a strategic role in fighting recession and stimulating recoveries. Fiscal policy is a tool that is used by the government to maintain the stability of state income and expenditure. These primarily include changes to levels of taxation and government spending. Fiscal policy is also used to influence the path of the economy. When a recession hits, the shift in spending or taxes will be clearly visible. A recession drives the expansionary fiscal policy where the government will increase government spending and lower taxes. This expansionary fiscal policy includes tax cuts, transfer payments, increases, and rebates in government spending on projects. In the case of Indonesia, the government has issued various tax incentives in order to support the business world and taxpayers in anticipating the impact of the COVID-19 outbreak.

One of the responses from the Indonesian government is tax cuts in corporate income tax. From the tax year 2020, the corporate income tax rate is reduced from 25 percent to 22 percent. Furthermore, other tax incentives provided by the government in strive to save the economy are Article 21 Income tax borne by the government, Article 22 Income Tax Incentive on Imports, Article 25 Income Tax Instalment Incentive, Value-added tax incentive, and Final income tax incentive for Micro Small and Medium Enterprises ("MSMEs").

Get your Business Ready

In a recession, taxpayers may perceive that the government is lenient in enforcing the tax laws or tax compliance is declining. In this uncertain condition regarding the global economic and recession projection, business must be preparing well in advance. A recession plan can help businesses to withstand and gain opportunities during a recession. Therefore, in terms of taxation, businesses must prepare for any possibility of tax policy tendencies, whether it will increase or lower the tax rates. To address the emerging challenges, businesses must measure all possibilities that can affect their business through tax planning, tax impact scheme, risk analysis, and tax compliance strategy.

As recession tends to encourage the expansionary fiscal policy that aims to lower taxes, businesses can use this tool to take advantage of tax incentives and regulate their accounting and financial management. Another way that businesses need in a recession is tax saving which means an effort to minimize the tax burden through the selection of taxation alternatives at a fairly lower rate. The primary benefit of tax saving is early on gives a head-start for the future and maintains financial health.

Recession Highlights

News Updates on Recession

July 2022

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Curated news on Recession
July 2022

Photo of Minister of Finance, Sri Mulyani, on APBN KiTa Press Conference in July 2022

> *"Recession risks are haunting other countries, while Indonesia soars through with higher economic growth."*

Sri Mulyani Comments on Recession Risks in Other Countries which are Becoming More Apparent

Sri Mulyani, Indonesia's Minister of Finance, comments that the on-going global events, such as the war between Russia and Ukraine, are adding more salt to the wound that COVID-19 pandemic has created for the global economic scene.

The potential for recession can be seen through the rise in energy and commodity prices, liquidity, and rise in interest rates. However, Indonesia is currently facing a rise in economic growth, with an inflation level at 4,35 in June 2022.

1

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Special News Updates

Curated news on Recession
July 2022

Photo by Marcus Millo on Getty Images

"Indonesia placed at number 14 out of 15 countries that will most likely face a recession."

Indonesia On the List of Countries that Will Most Likely Face A Recession

Based on a survey conducted by Bloomberg, Indonesia is listed as number 14 among countries most likely to face a recession with a rate of 3%. Indonesia is placed below countries such as Sri Lanka, New Zealand, South Korea, Japan, China, Hongkong, Australia, Taiwan, Pakistan, Malaysia, Vietnam, Thailand, and the Philippines, with a position just above India. Sri Mulyani added that Indonesia is currently having a greater economic condition in comparison to other countries, but will continue to stay alert.

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Special News Updates

Recession News Curation
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Indonesia is projected to have an economic growth of 5,1% in 2022.

3

Photo by Markus Spiske on Unsplash

Indonesia’s Economy to Rise During a Stark Crisis of Recession

The World Bank has projected the recent economic growth of countries around the globe. Amidst the fear of recession in other countries, Indonesia is projected to have an economic growth at 5,1% in 2022, rising decently in comparison to 2021 economic growth at 3,7%.

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Monthly Highlights

Tax News Summary for July 2022

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Taxpayers can now validate their National Identification Number to be used as Tax Identification Number.

4

National Identification Number to Fully Take Over as the Tax Identification Number

Starting in July 2022, the government has issued a regulation that states the usage of Tax Identification Number to be fully replaced by National Identification Number. This is to ease data integration between different government institutions and to ensure that Taxpayers will have an easier time to work their tax obligations.

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Monthly Highlights

Tax News Summary for July 2022

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At 9.11%, Indonesia's tax ratio is considerably the lowest among other countries.

Indonesia’s Tax Ratio Deemed as the Lowest Between ASEAN and G20 Countries

According to the Minister of Finance, Sri Mulyani, Indonesia’s tax ratio for 2021 is the lowest in comparison to other countries in the ASEAN region and those that participate in G20. With 9,11%, the number is lower when compared to pre-pandemic tax ratio, which is at 9,76% in 2019 and 10,24% in 2018.

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5

Tax Calendar

August 2022

MON	TUE	WED	THU	FRI	SAT	SUN
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17 Independence Day	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4
5	6	7	8	9	10	11

Reminders

1 August 2022 **Payment and Filing Deadline** : June 2022 Value Added Tax

10 August 2022 **Payment Deadline** : July 2022 Article 4(2), 15, 21/26, 22, and 23/26 Income Tax

15 August 2022 **Payment Deadline** : July 2022 Article 25 Income Tax, SME Final Income Tax, and Self-Assessed Value Added Tax

22 August 2022 **Filing Deadline** : July 2022 Article 4(2), 15, 21/26, 22, 23/26, and 25 Income Tax

31 August 2022 **Payment and Filing Deadline** : July 2022 Value Added Tax

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